

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 TRSE-00 OMB-01 SAM-01 CIAE-00 COME-00

EB-07 INR-07 LAB-04 NSAE-00 SIL-01 DODE-00 PM-03 H-02

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FM AMEMBASSY TEL AVIV

TO SECSTATE WASHDC 7409

LIMITED OFFICIAL USE TEL AVIV 4304

E.O. 11652: N/A

TAGS: ELAB ECON AFSP IS

SUBJ: TAX REFORM AND COST-OF-LIVING ADJUSTMENT

REF: A. TEL AVIV 4250 B. TEL AVIV 3973

1. DIFFERENCES BETWEEN HISTADRUT AND GOI OVER PROPOSED INCOME TAX REFORM LAW (REFTEL A) HAVE BEEN PATCHED OVER IN WEEKEND MEETINGS BETWEEN TOP OFFICIALS. THIS WILL FACILITATE PASSAGE BY KNESSET OF REFORM BILL BUT ITS FINAL FORM IS STILL UNCERTAIN.

2. PARTIES AGREED TO ESTABLISH TRIPARTITE WATCH-DOG COMMITTEE TO SEE THAT TAX REFORMS DO NOT RESULT IN CUT IN PRESENT TAKE-HOME PAY. IMPLICATIONS ARE THAT HISTADRUT MAY NEGOTIATE WITH EMPLOYERS TO COMPENSATE FOR CATEGORIES OF WORKERS ADVERSELY AFFECTED, PARTICULARLY AS RESULT OF TAXING TRANSPORTATION, CAR, AND TELEPHONE ALLOWANCES, AND PRODUCTION BONUSES.

3. WATCH DOG COMMITTEE WAS FACE-SAVING DEVICE FOR BOTH PARTIES, WEIGHTED IN FAVOR OF HISTADRUT. IT IS FIRST MAJOR STEP IN WATERING DOWN IMPACT OF MOST COMPREHENSIVE TAX REFORM IN LIMITED OFFICIAL USE
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HISTORY OF ISRAEL, AND MAY TEK EDGE OFF EARLIER PUBLIC AND OFFICIAL ENTHUSIASM IN ELIMINATION WHOLESAL Evasion OF INCOME TAXES.

4. TRIPARTITE COMMITTEE RECOMMENDATION ON REVISING FORMULA FOR PAYING COST-OF-LIVING ALLOWANCE (COLA) ANNOUNCED JULY 6 FOLLOWS CLOSELY OUTLINE REFTEL B, WITH SEVERAL EXPECTATIONS. CEILING ON SALARY ON WHICH COLA TO BE APID WILL BE IL 3,500 IN JULY, IL 4,000 IN APRIL 1976, AND THEREAFTER UNLIMITED. ALSO, NEXT PAYMENT AFTER JULY WILL BE DUE APRIL 1976, FOLLOWING WHICH COLA WILL BE PAID SEMI-ANNUALLY IF INCREASE IN INDEX EXCEEDS FIVE PERCENT. WORKERS WILL BE COMPENSATED FOR SKIPPING NEXT JANUARY COLA BY TWO PERCENT ADDITIONAL PAYMENT IN MID JULY COLA.

5. GOI AND HISTADRUT INDICATED BASIC AGREEMENT TO NEW FORMULA, BUT SOME DIFFERENCES EXIST OVER CALCULATION OF JULY COLA. ONCE THESE DIFFERENCES ARE RESOLVED, WAY SHOULD BE PAVED FOR PEACFUL CONCLUSION OF CONTROVERSAL COLA AGREEMENT BY END OF MONTH, ALTHOUGH INCOME TAX REFORMS WILL LIKELY CAUSE SOME LABOR DISPUTES OVER NEXT FEW MONTHS.

6. WAGES LIKELY TO RISE SOMEWHAT HIGHER THAN GOVERNMENT HAD HOPED AS RESULT NEW AGREEMENT ON COLA INCREASE AND "WATCH DOG" COMMITTEE ON INCOME TAX REFORM.
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